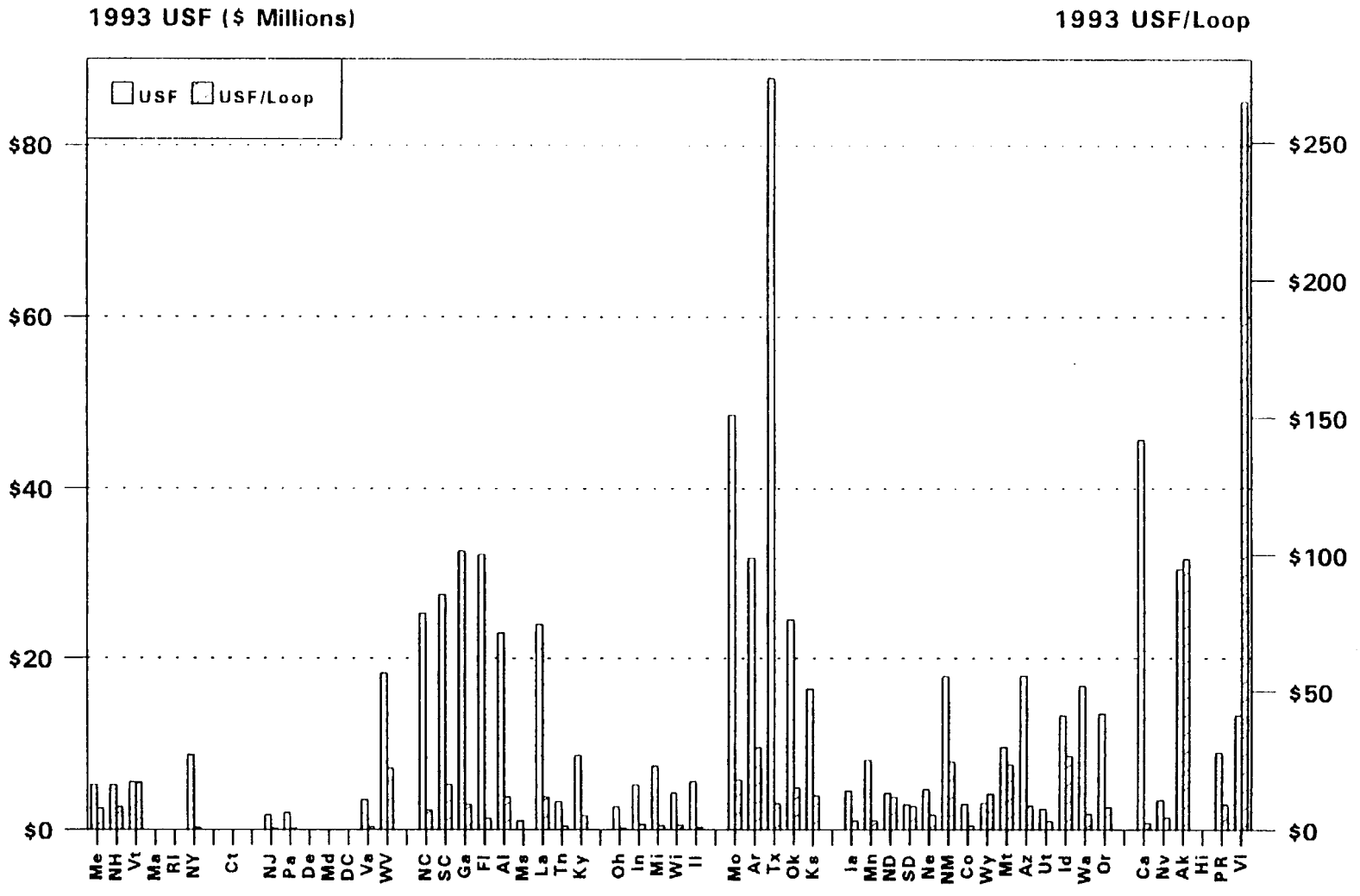
1993 USF by State
(Based on 1991 data)



6C - EXPLICIT SUPPORT - DIAL EQUIPMENT MINUTES (DEM) WEIGHTING

WHAT IS IT?

This mechanism allows small local exchange telephone companies with fewer than 50,000 access lines to increase the allocation of their network switching costs that are assigned to the interstate jurisdiction. These costs are then recovered from interstate access service rates. As a result, less switching costs are assigned to the state to be recovered in that jurisdiction. This mechanism was intended to assist in keeping intrastate rates lower than they would otherwise be.

PAID TO

Local Exchange Carriers that meet qualifications based on number of access lines.

Number of Access Lines in Service in Study Area	Weighting Factor
0 - 10,000	3.0
10,001 - 20,000	2.5
20,001 - 50,000	2.0
50,001 - or above	1.0

FUNDED BY

Recovered through qualifying LECs' access rates.

REFERENCE CITE

§ 36.125 (f)

MECHANICS

This special weighting factor allows up to a maximum of 85 percent of a qualifying telephone company's total switching equipment costs to be recovered by interstate access services.

6C - EXPLICIT SUPPORT - DIAL EQUIPMENT MINUTES (DEM) WEIGHTING

CURRENT DEM WEIGHTING ISSUES

1. APPROPRIATENESS/TARGETING:

a) Issue

- Does the weighting accomplish the intended objective?
- Does it target funds properly?

b) Positions of Others

- IXC's, ALTS, CAPS:
  Improperly targeted, support should flow to consumer.

- FCC Joint Board/State Commission Staff:
  Targeting is inappropriate.

- Small LEC's:
  Targeting may not be perfect but support is necessary and is used to improve the network and keep rates lower than they would otherwise be.

c) SWBT Position

- Agree with small LEC position.

d) Current Status

Alternative targeting will be evaluated as part of the Joint Board USF data request (See USF, issue 6B).

2. RATE DISPARITY CAUSED BY THE WEIGHTING AND ITS RECOVERY:

a) Issue

- The high interstate allocation of local switching costs caused by the weighting and the recovery in the qualifying LEC's local switching access rate causes that LEC's access rate to be substantially higher than non-qualifying LECs.

- This higher access rate may provide an incentive for IXCs to de-average toll and charge higher toll rates to qualifying LEC customers. The higher rate could also cause some IXC's to choose not to serve qualifying LEC areas. This is a concern similar to that which resulted in the LTS mechanism.

- The issue has been raised by NECA a number of times. First in 1989/1990 shortly after the DEM weighting was implemented and, recently in the content of a review of explicit support mechanisms.

6C - EXPLICIT SUPPORT - DIAL EQUIPMENT MINUTES (DEM) WEIGHTING

CURRENT DEM WEIGHTING ISSUES (continued)

b) Positions of Others

- Some small LECs have opposed evaluation of alternative recovery (similar to LTS and or bulk billing of weighting) because the state rates were mirroring the high interstate local switching charge. This mirroring results in high state revenue flows and very high recovery of local switching costs because few costs are assigned to state access due to the interstate DEM weighting.

- Some small LECs and NECA have proposed revisions to the recovery:
  -Bulk bill the weighting,
  -Develop a LTS type mechanism.
  -Develop a subscriber line increase for all LECs to recover.

- IXC's/ALTs:
  No positions because no alternative proposal has been filed. They can be expected, however to oppose any change which would increase their payments.

c) SWBT Position

- Oppose any SLC increase for DEM weighting that would affect SWBT customers. Small LECs could increase their own SLC's to recover their weighting.

- Support Bulk billing if desired by small LECs.

6D - EXPLICIT SUPPORT - LONG TERM SUPPORT (LTS)

WHAT IS IT?

Participation in the NECA common line pool was mandatory for all local exchange carriers from 1984 until April 1989. At that point, the FCC permitted voluntary membership in the common line pool. Low cost LECs (primarily the large LECs) elected to exit the pool in order to reduce their CCL access rates. In order to avoid a substantial increase in the CCL rates of the remaining voluntary pool members, support (Long Term Support) was and is, being paid to the pool to maintain the NECA carrier common line rate at the nationwide average. This process was established as part of the Unity 1-A agreement.

PAID TO

The NECA common line pool members (typically small telephone companies).

The receiving telephone companies determine the amount by aggregating their costs in a pool administered by the National Exchange Carriers Association (NECA).

FUNDED BY

Local exchange telephone companies that no longer participate in the NECA common line pool, such as SWBT, are the source of funds for long term support. The proportion of support is determined based on the relative share of these LECs access lines. These telephone companies recover these LTS costs through access charge rates (paid primarily by IXCs).

REFERENCE CITE

§ 69.612

MECHANICS

The LTS payment obligation of telephone companies that are not association Common Line tariff participants is equivalent to the difference between the projected Carrier Common Line revenue requirement of association Common Line tariff participants and the projected revenue recovered by the association Carrier Common Line charge. The association CCL charge is the nationwide average charge of all LECs (pool and non pool LECs).

6D - EXPLICIT SUPPORT - LONG TERM SUPPORT (LTS)

CURRENT LTS ISSUES

1. FUNDING OF LTS:

a) NYNEX recently filed a Petition for Waiver with the FCC which if adopted would:

- Remove LTS recovery from LEC access rates.
- Provide that NECA bulk bill IXCs directly for LTS.
- Distribute the bulk billing among the IXCs based on relative Toll revenues.

This change if adopted, would be much like that adopted for the USF in 1986:

- Simplify the funding process by eliminating LECs as middlemen in the funding process.

b) Positions of Others

- IXC's:
  May oppose and recommend deferral to comprehensive universal service proceeding.

- LECs:
  Some small LECs may oppose - they want Large LECs to continue to pay as they believe is provided for in Unity 1A. Keep responsibility for payment of support distributed between Large LECs and IXC's.

  USTA may support.

c) SWBT Position

- Strongly favor bulk billing. Suggested in our response to AT&T USF petition and NYNEX Tariff Waiver.

- An alternative position we would support would be the complete elimination of LTS as unnecessary. First, resulting high small LEC pool CCL rates are not likely to result in deaveraged toll rates by the IXC's. Second, Large LECs may be forced to deaverage the CCL geographically due to further competitive entry. Consequently, rural CCL rates of large LECs may rise and likely would be equivalent to the CCL rates of the small pool LECs, without LTS.

6E - EXPLICIT SUPPORT - TELECOMMUNICATIONS RELAY SERVICE (TRS) FUND (IS)

WHAT IS IT?

This is a newly adopted shared funding mechanism that provides support for the interstate telecommunications relay services. These services provide communication capabilities to individuals with hearing and speech disabilities.

Telecommunications Relay Service (TRS) allows persons that utilize Telecommunications Devices for the Deaf (TDDs) to communicate with those who do not have such devices, with aid of an operator or communication assistance. TRS is typically provided by common carriers or entities under contract to carriers of state TRS programs (Sprint is currently the provider in Texas).

The Americans with Disabilities Act (ADA) requires all common carriers providing interstate voice telecommunications services to provide TRS to their customers effective July 26, 1993.

PAID TO

TRS is paid to the service providers. On a monthly basis, TRS providers submit their interstate TRS minutes to NECA. Currently, NECA pays them $1.70 per minute.

FUNDED BY

NECA administers the TRS fund. All interstate telecommunications providers contribute to the fund. Contributions are based on a carriers share of interstate revenue.

REFERENCE CITE

C.F.R. 47, Part 64, Subpart F

CURRENT TRS ISSUE

Inappropriateness of double counting interstate revenues in the calculation of TRS Fund contribution.

a) Position of Others

- Likely other payers besides the LECs will oppose because it will increase their share.

b) SWBT Position

- Inclusion of interstate access charges in the calculation of the funding results in double counting, or recovery of TRS from IXCs twice: once for each retail toll dollar of revenue that they collect and again for each access dollar that they must pay to the LECs. It is more appropriate and equitable to exclude access revenues from TRS funding and include only toll revenues.

6F - EXPLICIT SUPPORT - LIFELINE

WHAT IS IT?

The lifeline program provides financial assistance to low income subscribers qualified on the basis of a state established income test (means test). End user Common Line (EUCL) charges are reduced by the FCC by 50% if intrastate monthly local exchange rates are reduced by an equivalent amount. Assistance shall not exceed 100% of EUCL. It is designed to keep customers on the network.

PAID TO

Lifeline is targeted to low income subscribers (Consumers), and will be provided based on the following state-established means test:

- Applicant must have household income at or below poverty level, or participate in one of the following programs:
  - Aid to Families with Dependent Children (AFDC)
  - Food Stamps
  - Home Energy Assistance Program (HEAP)
  - Medical Assistance Program (MAP)
  - Supplemental Security Income (SSI)
  - Women, Infants, and Children (WIC)
- Applicant must have only one local access line.

FUNDED BY

Lifeline is funded by the interexchange carriers on the same basis as the USF mechanism. That is, lifeline funding is based on the proportion of a long distance company's presubscribed "1 + " customers relative to other providers.

REFERENCE CITE

§ 69.104J

MECHANICS

The Federal End User Common Line charge for a residential subscriber is 50% of the charge specified if the intrastate residential local exchange service rate for such subscribers is reduced by an equivalent amount, provided that the local exchange service rate reduction is based upon a means test that is subject to verification.

6F - EXPLICIT SUPPORT - LINKUP

WHAT IS IT?

The Linkup program provides financial assistance to low-income subscribers by reducing the cost of installation charges required to initiate telephone service up to a maximum of $30. Recipients of Linkup assistance are qualified on the basis of a state established income test (means test). It is designed to get customers on to the network.

PAID TO

Linkup is targeted to low income subscribers (Consumers), and will be provided based on the following state-established means test:

- Discounted service connection charges will be provided for one telephone line per household, at the subscriber's principal place of residence
- Assistance is targeted to those individuals who meet the following two criteria:

    1) Applicant cannot be a dependent under the age of 60.
    2) Applicant must meet income criteria as determined by the Commission of Texas, through one of the following methods:
        - Show that he/she is a recipient of benefits under one of the following public service programs:
            - Aid to Families with Dependent Children (AFDC)
            - Food Stamps
            - Home Energy Assistance Program (HEAP)
            - Medical Assistance Program (MAP)
            - Supplemental Security Income (SSI)
            - Women, Infants, and Children (WIC)

        - Provide a copy of their most recent Individual Income Tax Return that was submitted to the Internal Revenue Service.

        - Be identified by the Department of Human Resources (DHS) as a person eligible for the state's Tel-Assistance program.

FUNDED BY

Linkup is funded by the interexchange carriers on the same basis as the USF mechanics. That is, Linkup funding is based on the proportion of a long distance company's presubscribed "1 +" customers relative to other providers.

REFERENCE CITE

§ 36.701

MECHANICS

The Linkup connection assistance expenses are calculated based on the procedures set forth in part 36.701. This expense is added to interstate expenses and deducted from state expenses for eligible study areas.

6G - EXPLICIT SUPPORT - THE UNITY 1 AGREEMENT

WHAT IS IT?

The Unity 1 Agreement was signed by most of the industry's exchange carriers in October 1984. It dealt with four major issues being addressed at the time by the Federal State Joint Board and/or the FCC. The agreement balanced the goals of the FCC, the states and large and small exchange carriers by including small company goals of unitary rate of return and a high cost fund with FCC and large company goals of SLC implementation and lifeline services.

SPECIFICALLY CALLED FOR

1. A rate of return for small exchange carriers based upon the average of large exchange carriers authorized interstate rates of return.

2. Creation of a universal service fund mechanism designed and targeted to maintain reasonably priced service in high cost areas.

3. Establishment of subscriber line charges so that access service is priced to encourage large users to remain on the switched network.

4. Established lifeline services where necessary.

5. Incorporated in substantial part by FCC and Joint Board orders in 1984.

6G - EXPLICIT SUPPORT - THE UNITY 1-A AGREEMENT

WHAT IS IT?

In 1986 the Unity 1-A Agreement continued support of the Unity 1 issues and added industry consensus positions on several new issues on the FCC and Joint Board agendas' at that time.

ADDED THREE BASIC GOALS

The Unity 1-A Agreement added three basic goals to be used to measure the appropriateness of proposed changes. The goals were:

1. To promote the broadest connectivity reasonably attainable.

2. To establish usage charges which encourage efficient use of the network.

3. To reduce the scope and complexity of regulation.

6G - EXPLICIT SUPPORT - THE UNITY 1-A AGREEMENT

NEW ISSUES

The major new issues addressed in the Unity 1-A Agreement included:

1. Local Franchise - asked for regulations and laws that continue to balance the concepts of an exchange carrier's obligation to serve and the right to maintain economic viability.

2. Continued support for nationwide uniform toll rates.

3. Recommended that the current NECA mandatory carrier common line tariff/pool become voluntary with a support mechanisms to facilitate the change (Long Term Support).

4. Supported the continued use of average schedules.

5. Supported the reduction and/or elimination of unnecessary and burden-some FCC filing requirements - especially for small exchange carriers.

6. Supported separations reform that would reduce costs, simplify and balance large and small exchange carriers interests.

7. Supported industry cooperation at the state level when addressing national level unity agreement issues.

In addition, the Unity 1-A Agreement proposed that the universal service fund formula be revised to refocus the expense adjustment to provide greater support to the small exchange carriers. Another change was to simplify support funding by removing the USF and Lifeline funding from LEC access rates and direct billing to interexchange carriers by NECA. The Unity 1-A Agreement was incorporated into federal policy by FCC and Joint Board action in 1986-87.

7 - CARRIER OF LAST RESORT - SWBT Position

While SWBT will maintain carrier of last resort obligations, it must be allowed a fair opportunity to recover its costs via rate rebalancing and/or interconnection charges and/or implementation of explicit support mechanisms (as discussed in section 5C).

8 - NARUC UNIVERSAL SERVICE PROJECT ISSUE PAPERS

NARUC has organized a group to address Universal Service issues through a series of papers written by members of the group. In addition these papers have been posted to the NARUC Energy and Regulatory Matters Information Service (ERMIS) Bulletin Board. The following is the list of papers and the primary authors. Also attached is a summary of each of the papers.

The NARUC staff working on this project has had a series of conference calls to discuss these papers. The last call on Friday, February 18, 1994 concerned the summary paper prepared by Sam Loudenslager. During that call there was not a consensus agreement on all of the issues, but there was agreement to go forward with the papers.

There will be a closed meeting of this Project group on Friday, February 25, 1994 at the NARUC winter meeting and an open meeting on Saturday, February 26, 1994. As this Project proceeds we will provide you with further updates.

8 - NARUC UNIVERSAL SERVICE PROJECT ISSUE PAPERS

	TITLE	AUTHOR
1.	The Relationship between Universal Service and Basic Service	Eileen Benner - ID
2.	Service Capabilities & Technical Standards	Whitey Thayer - DC Paul Pederson - MO
3.	User Characteristics and Demand	Vivian Davis - NRRI
4.	Cost & Funding Considerations - Government Issues	Ron Choura - MI
5.	Cost & Funding Consideration - Subscriber Issues	Sandra Makeeff - IA Ann Dean - MD
6.	Cost & Funding Considerations - Provider Issues	Scott Girard - OR
7.	Monitoring & Enforcement	Debra Kriete - PA
8.	Concluding Policy Statement	Sam Loudenslager - AR

8 - NARUC UNIVERSAL SERVICE PROJECT ISSUE PAPERS

NARUC established a team at the November 1993 Annual Convention to study the issues involved in the evolution of universal service in this country. Draft issue papers were developed and discussed on public conference calls scheduled from December 1993 through February 1994. Eight papers on the following aspects of universal service were drafted and issues explored are listed and summarized below:

1. The Relationship Between Universal Service and Basic Service,
2. Service Capabilities & Technical Standards,
3. User Characteristics & Demand,
4. Cost & Funding Considerations - Government Issues,
5. Cost & Funding Considerations - Subscriber Issues,
6. Cost & Funding Considerations - Provider Issues,
7. Monitoring & Enforcement,
8. Concluding Policy Statement.

PAPER 1 - SUMMARY OF THE RELATIONSHIP BETWEEN BASIC SERVICE AND UNIVERSAL SERVICE

This paper discusses the difficulties surrounding construction of a meaningful definition of "basic service". The key question to be answered by policymakers involves which services should be universally available and perhaps at subsidized prices. The paper suggests the connection between basic and universal service concepts is that universal service objectives apply only to services deemed to be "basic", with basic defined as those elements deemed essential to minimal acceptable access and use of the public network.(pp. 2,4) It acknowledges the traditional support mechanisms used to make services and capabilities both universally available and affordable (p. 7), and that competition introduces a huge challenge, since it "alone does not guarantee a uniformity of service or rates to all customer groups and geographic areas." (p. 3) The paper suggest criteria for determining if service or capability is basic and therefore should be considered for universal service, and identifies issues which merit consideration.

PAPER 2 - SUMMARY OF SERVICE CAPABILITIES & TECHNICAL STANDARDS

This NARUC paper suggests that a minimum technical standard for Universal Service in the future is digital data speed zero (DS0) or 64 kilobits per second. The paper states that at a minimum, the subscriber loop must be able to carry individual (single party) DS0 digital signals to and from every subscriber. The paper recommends that States should be involved in the establishment of the national technical and quality standards as well as continuing in the measurement of service actually being provided by carriers operating in their States.

PAPER 3 - SUMMARY OF USER CHARACTERISTICS & DEMAND

This NARUC paper first addresses the issue of what measure is appropriate as the standard for universal service. It points out that the percentage of customers served may no longer be a suitable measure. For example, while voice-only service penetration in a community may be 94%, voice mail penetration can be at 33% and ISDN penetration at 5%. Because of the differentiation of the demand for individual services, it is no longer useful to assume that 90% penetration is a goal.

The paper states that while the "spark to include a service in the basic set of services received is affordability, the underlying support for doing so depends on declaring that a service is a necessity." (p. 2)

To develop a modernized definition of universal service, the paper suggests that regulators will need to consider the role of user characteristics and demand and will need to ask questions regarding the degree of competition, availability, need, affordability, and value. The paper recommends regulators establish adequate mechanisms for monitoring competition, availability and usage; and procedures for consumers to petition to add a service to those included under "universal service."

PAPER 4 - SUMMARY OF COST & FUNDING CONSIDERATIONS - GOVERNMENT ISSUES

For government, it is critical to have telecommunications services carry out its many diverse functions (i.e., fire protection, police coverage, emergency medical services, etc.) on a day-by-day basis. The paper suggests that although government has benefited by common carriage service availability, it is finding that in some areas of the country it has to deploy its own networks for delivery of modern services.

The authors identify 35 "essential" services/functionalities which they believe should be included in the universal service for government on 3 or fewer days notice, at prices at or below long run incremental cost. These services range from voice grade 64 Khz bandwidth to equal access to SS7, to unbundled switched services, to packet e-mail access. (p. 3) A digital switched broadband telecommunications platform is identified as an important characteristic of the future infrastructure. The paper recommends that this platform be universally available to all homes, schools, and health care centers.

"Interpretability", "transparency", "security and reliability", and "usability" are discussed as requirements of the future networks. (pp. 7-8)

PAPER 5 - SUMMARY OF COST & FUNDING CONSIDERATIONS - SUBSCRIBER ISSUES

This NARUC paper discusses the definition of universal service and examines universal service from the perspective of both residential and business customers. The paper addresses some of the issues also discussed in other papers such as whether universal service been achieved, current support mechanisms, who benefits. Also discussed is an expanded definition of universal service and whether rates will be affordable.

PAPER 5 - SUMMARY OF COST & FUNDING CONSIDERATIONS - SUBSCRIBER ISSUES (cont.)

The paper states that the current system of explicit and implicit support mechanisms, while keeping the cost of local service low, subsidizes customers who may not require subsidization. Specifically targeted support payments based upon need would probably reduce the cost of universal service. The cost of universal service should be distributed equitably among industry participants and customers. This could be accomplished through a specifically designed collection method, such as a tax or surcharge.

The paper states that if the definition of universal service is to be expanded beyond voice grade service, even larger support mechanisms will be necessary unless economical decisions are made. Increasing competition will require new methods of subsidizing basic or expanded universal service. Future support mechanisms must be equitable in a multi-vendor environment. They should be targeted so that universal service is achieved regardless of geographic area, income or race.

PAPER 6 - SUMMARY OF COST & FUNDING CONSIDERATIONS - PROVIDER ISSUES

A universal service plan should work in a competitive environment including local, be targeted to end users, encourage LEC efficiency, collect funds fairly and equitably, and be embedded cost-based unless sufficient competition exists. Competition will limit the ability of LECs (and regulators) to price one service higher so that another service can be priced lower; rates for residential customers may need to rise. Competitive entry will be more likely in the urban than rural areas, limiting low and high cost area rate averaging.

An alternate plan would require LECs to obtain approval of rates absent universal service funds. Competitor's customers could to receive universal service funds, providing the LEC with an incentive to control its costs so that it can compete. All users of the network should contribute to universal service. This would include not only the customers of the LECs but also the customers that interconnect with the network.

There will continue to be areas where competition for local services does not exist, likely the ones with the highest cost and therefore the greatest need for universal service funds. In those areas or services it is inappropriate to either allow the LEC to exercise monopoly power, or not provide the LEC with an opportunity to earn a reasonable return. Where competition exists prices will be determined by the market, not by some embedded cost study approved by regulatory review. The LEC will lose its exclusive service territory and the associated opportunity for recovery based on embedded costs, while it gains regulatory freedom.

PAPER 7 - SUMMARY OF MONITORING & ENFORCEMENT

The paper explores:

1. whether there is a need for monitoring and enforcement of universal service,
2. proactive versus reactive monitoring/enforcement,
3. customer complaints,
4. reporting requirements,
5. customer input.

PAPER 7 - SUMMARY OF MONITORING & ENFORCEMENT (cont.)

It concludes that as carriers evolve to more regulatory and pricing flexibility, the regulators will need to shift more toward examining service quality and service offerings. Monitoring and enforcement responsibility will be fulfilled as follows:

1. Review capital deployment decisions for compliance with universal service objectives.
2. Require periodic reports to regulators on quality, offerings, satisfaction, penetration.
3. Customer complaints will serve as one monitoring technique.
4. Use customer surveys to determine expanded universal service definition.

PAPER 8 - SUMMARY OF PRELIMINARY CONCLUDING POLICY STATEMENT

Recommendations:

* Based on the present notion of universal service as applying to "plain old telephone service," penetration rates among various population segments demonstrate that the goal has not yet been achieved, notwithstanding conventional discussion to the contrary.

* No alteration or expansion of the universal service concept should increase rates for present day "plain old telephone service."

* To effectively promote the universal service goal in the present day market environment which now has some competition and is evolving in that direction, all service providers must bear proportional financial support responsibility for joint and common costs associated with providing universal service.

* Explicit universal service financial support mechanisms should be revamped to provide support directly to end users, as opposed to carriers, in contemplation of local exchange competition.

* As the definition of universal service evolves, regulators must implement additional barometers to supplement the measurement of penetration rates for reviewing what services should be considered essential and sustained through the provision of financial support.

* The present definition of universal service ("plain old telephone service" or narrowband service) should be considered "essential" service and be eligible for financial support.

* The definition of universal service should evolve to provide for universal availability of DS0 transmission service through public access at centrally located facilities in local communities.

* Essential and universally available services must be offered on a common carrier basis.

PAPER 8 - SUMMARY OF PRELIMINARY CONCLUDING POLICY STATEMENT (cont.)

Recommendations (cont.) :

* Regulators must vigilantly monitor and enforce universal service standards.

* Monitoring mechanisms that are "customer friendly" must be implemented.

Principles:

Present and future policy making with respect to universal service must take into account the following principles:

1. The universal service principle requires the differentiation between universally available and essential services.

   Essential service would be defined as the current universal service concept of "plain old telephone service." Ubiquitous availability of affordable narrowband communication transmission capability would suffice.

   Universal availability for advanced technology/services would be accomplished by making sure that all subscribers have public access to advanced service capability.

2. Services that fall within the universal service definition must be offered on a common carrier basis.

3. Monitoring and enforcement of universal service will be a critical responsibility for regulators that must be fulfilled vigilantly.

4. Universal Service requires that minimum service capabilities and technical standards be established at the DS0 level for transmission.

9 - SWBT RESPONSE TO NARUC PAPER

The SWBT Universal Service paper referred to in the following paper - SWBT comments on NARUC papers - can be found in Tab 2 of this binder.

SOUTHWESTERN BELL TELEPHONE
COMMENTS ON NARUC
UNIVERSAL SERVICE PROJECT PAPERS

Southwestern Bell Telephone (SWBT) appreciates the opportunity to comment on NARUC's papers resulting from its Universal Service Project. The efforts of NARUC have identified many key issues. SWBT generally agrees with the six general principles presented in the summary paper. Listed below are SWBT's comments on each principle.

Additionally, attached is a paper on universal service recently released by SWBT which provides a more detailed response and further information on the areas being addressed by NARUC.

Universal Service Availability

Universal service, in SWBT's view, is a concept that relies on the deployment of a telecommunications infrastructure or platform (loop, switching, and interoffice facilities, or equivalent) for use by the general public to accomplish two-way switched voice communications within and beyond a local calling area. This basic infrastructure is necessary to provide the access to services and capabilities that exist today. Without this infrastructure, ubiquitous service would not be possible. Using the universal service platform, a number of services can be offered to the consumer, including basic telephone service. The universal service basic infrastructure has been deployed ubiquitously by the Local Exchange Carriers (LECs) to serve all communities and customers, both high cost and low cost -- rural and urban.

SWBT believes that universal service has largely been achieved, although as NARUC points out there are some cases where basic POTs penetration has not reached 100%. Quite likely there are many reasons why in certain areas or subgroups there may be less than 100% penetration that could be evaluated by NARUC if necessary.

For more detailed information on this subject please refer to the attached SWBT Universal Service paper and the sections on: Definition; Carrier of Last Resort; Support Mechanisms; Quantification of Support; Support Recovery and Expanded Definition of Universal Service.

Universal Service Affordability

SWBT agrees that affordability is a key issue in the provision of universal service in both high and low cost areas. This is accomplished today through the use of both explicit and implicit support mechanisms. In order to provide affordable service to all, various programs such as Lifeline and Link-up have been implemented. These programs are essential to the provision of universal service and should be continued.

For more detailed information on this subject please refer to the attached SWBT

Universal Service paper and the sections on: Carrier of Last Resort; Support Mechanisms; Quantification of Support; and Support Recovery.

Provision of Services

The concept of universal service should evolve over time as technology and customers' needs develop. The development of a group of "essential services" and "universally available services" is possible as long as the desire to ubiquitously deploy these services is based on sound economic and technical principles, as well as an accurate reflection of customers' needs. SWBT believes that if an expanded network is required to offer advanced services, such a network should only be deployed where the market dictates and customers are willing to purchase services at rates that will provide for the recovery of the deployed costs.

SWBT will continue to fulfill carrier of last resort obligations for two way voice communications. As competition is further introduced into the network and the basis for existing support (for the network infrastructure and essential services) erodes, SWBT will maintain carrier of last resort obligations, as long as it is allowed a fair opportunity to recover its costs via rate rebalancing and/or interconnection charges and/or explicit support mechanisms.

For more detailed information on this subject please refer to the attached SWBT Universal Service paper and the sections on: Definition; Carrier of Last Resort; and Expanded Definition of Universal Service.

Technical Standards

The NARUC paper recommends that Data Speed Zero (DS0) should be designated as the minimum technical standard or benchmark for telecommunications service. SWBT believes that many questions need to be answered before a technical standard benchmark can be established. Some of these questions are as follows:

- Are new technical standards really needed?
- Should technical standards be tied to a particular type of technology (i.e., digital)?
- Will the new technical standard vastly improve the type of services that can be offered to the customer?
- Can existing standards be modified to meet future service requirements?
- What standards already exist in the states?
- What individual company standards already exist?
- What will be the cost for companies to reach the designated technical benchmark -- SWBT would incur significant costs in order to meet the DS0 standard?
- What will be the cost for customers to access services -- consumers will need to replace analog telephone sets as they will not be compatible with digital technology standards, which will also be costly?

- What is the time frame for conversion to the new standard?
- Will such a standard meet the needs of future services?
- What means will be provided for carriers to meet these benchmarks in a financially viable way? and
- How will carriers recover the costs to deploy the network to meet the technical standard?

SWBT believes there are many issues that must be resolved before a technical standard can be established.

For more information on this subject refer to the attached SWBT Universal Service paper and the sections on: Definition and Expanded Definition of Universal Service.

Monitoring

If it is decided that monitoring is needed, it should be consistent among all providers of service. No one segment of carriers should be unduly burdened by monitoring requirements.

Universal Service Funding

Universal service support programs should be funded in a competitively neutral manner whereby all telecommunications providers contribute financial support. Support must go to the carriers who have already expended the capital to deploy a ubiquitous network and now provide universally available telephone service and have been and are obligated to fulfill carrier of last resort obligations. Providing support directly to end users will not result in the development and maintenance of the infrastructure necessary to support the provision of universal service since the network infrastructure can only be deployed ubiquitously and guaranteed by service providers. The carrier of last resort must not also be required to contribute financial support, since these carriers will incur the cost for the facilities to provide the service.

A voucher system as suggested by the NARUC paper, or a balloting process, is premised on giving individual customers a "credit" so they may choose the carrier they wish to provide their service. At first glance, such a system may be appealing since it appears to provide customers with a choice. After further review, SWBT believes that in reality such a system will actually jeopardize rather than support universal service and may even leave a customer without a service provider.

The continuation of universal service into the future is contingent upon the same basis as universal service today: a ubiquitous network for provision of services to all geographic areas (low cost, high cost, etc.) at reasonable rates. This ubiquitous network already exists and has been put in place by the LECs in an economically efficient manner. It is unlikely that alternate carriers will expend the capital to also deploy a ubiquitous network to ensure the continuation of universal service into the future.

Within a competitive environment, alternate carriers are expected to enter a market that is currently served by a LEC. It is most likely that alternate carriers will choose to selectively enter high volume/low cost markets because of the high revenue potential in these areas. Within the high revenue potential areas served by both the alternate carrier and the existing LEC, a customer would have a choice to select either the LEC or the alternate carrier as their service provider.

Currently for the entire service area (including the competitive area), LECs are required to charge averaged rates which include costs not only for the low cost area, in which it will be competing with alternate carriers, but also for high cost areas (which alternate carriers will likely choose not to serve). These averaged rates mean that customers in high volume/low cost (competitive areas) are contributing support to keep rates in low volume/high cost areas lower than they otherwise would be and thus universally available. These averaged rates include costs the LECs must incur to deploy a ubiquitous network, serve as the carrier of last resort, fulfill readiness to serve obligations, and meet service quality standards, for all areas both high cost and low cost. Conversely, the alternate carrier is not required to charge averaged rates, deploy a ubiquitous network, serve as the carrier of last resort, fulfill readiness to serve obligations, or meet service quality standards. Consequently, the alternate carrier is able to offer a rate which undercuts the LEC averaged rates and draws customers away from the LEC. Given the choice of carriers, customers would likely choose the carrier who offers the lowest rate because of the cost savings. Faced with this situation, the LEC would have no choice but to also lower rates in competitive areas. The ultimate result of both the loss of high revenue customers and lowering rates in competitive areas is that the implicit support (for low volume/high cost areas) generated in these high volume/high revenue/low cost areas is lost, which will require the LECs to recover its costs in another manner and also result in less revenue flow to support high cost areas.

The only solution to this dilemma is to allow the LEC to rebalance rates in order to maintain support for universal service. This situation, however, is being confused by the claims of alternate carriers that they should now be entitled to receive universal service support because they are incurring the cost to provide service in selected areas (high volume/high revenue/low cost areas). SWBT strongly objects to this claim because alternate providers will likely only choose to serve a certain base of customers -- those with high revenue potential. Permitting the alternate carriers to obtain support for providing service to these customers is beyond logic. These bases of customers are in low cost areas and are not being supported by the LEC averaged rates -- they are the supporters. Therefore, since the LEC is serving both the high cost and low cost areas, they are entitled to universal service support, not the alternate carrier. Additionally, alternate carriers should not have access to support because it is unlikely that they will expend the capital to also deploy a ubiquitous network to ensure the continuation of universal service and meet all carrier of last result obligations, including readiness to serve requirements; a role the LECs continue to fulfill.

If an alternate carrier enters a market area that is currently served by SWBT and indicates they are willing to provide a ubiquitous network and meet all carrier of last resort obligations, (including readiness to serve standards and service quality), SWBT believes that these carriers will have to prove they will meet all the obligations before they can receive any universal service support. SWBT has been and will continue to serve as carrier of last resort in order to ensure the continuation of universal service goals. SWBT also stands ready to serve the customers of an alternate carrier in the event that the alternate carrier does not fulfill all carrier of last resort obligations or is unable to continue to provide service. As competition is further introduced into the network and the basis for existing support (for the network infrastructure and essential services) erodes, SWBT must be allowed a fair opportunity to recover its costs via rate rebalancing and/or interconnection charges and/or explicit support mechanisms.

In summary, the universal service funding issue is being confused by the alternate carriers claims that they should now be entitled to receive universal service support. Alternate carriers are using the voucher system arguments to selectively obtain support for serving a base of customers that are not being supported by the LEC averaged rates -- they are the supporters. It is unlikely that alternate carriers will expend the capital to deploy a ubiquitous network to ensure the continuation of universal service into the future and it is unlikely they will do so even if they receive support. The LECs have fulfilled and continue to fulfill this obligation. Providing customers with a voucher will not ensure the continuation of universal service to all areas.

For more detailed information on this subject please refer to the attached SWBT Universal Service paper and the sections on: Definition; Carrier of Last Resort; Universal Service Voucher System; Support Mechanisms; Quantification of Support; Support Recovery and Expanded Definition of Universal Service.